

Commission Meeting October 8, 2009

Overview



» Small Group Priorities

- Affordability
- Predictability

» Pooling of Risks

- Rate Fluctuations
- Lower Premiums

Small Group Priorities



» Affordability

 High claims costs and rating limitations lead to high premiums for many groups

» Predictability

 Fluctuating rate increases make budgeting health care costs challenging

Pooling of Risks



» Advocates Say- Pool small groups together and allow them to function like a large employer

- Capitalize on lower administrative and distribution costs to achieve better rates from carriers
- Less fluctuation in rate increases
- Lower premium rates



Capitalize on lower administrative and distribution costs to achieve better rates from carriers?

» Lower administrative costs and distribution costs possible through streamlined benefit, enrollment, renewal processes and more group level self service

Less fluctuation in rate increases?



» Understanding Rate Fluctuations

- Changes in the makeup of the workforce (e.g., age of employee) can cause significant rate changes for small groups
- Reason: Older employees on average have higher costs than younger employees



Example 1: Employee turnover in a small group can cause significant rate fluctuation (Group 1)

n Leaves	Employee A B C1 D E	Age 21 27 29 35 35	Type of Contract Single Single Single Single Single	Premium \$160 \$200 \$200 \$220 \$220 \$1,000		
Replacement	Employee A B C2 D E	Age 21 27 62 35 35 Premium Per B	Type of Contract Single Single Single Single Single	\$200 ———————————————————————————————————		
	Increase to group premium					



Example 2: Employee turnover in a small group can cause significant rate fluctuation (Group 1)

	Employee	<u>Age</u>	Type of <u>Contract</u>	Premium
an	A B	21 27	Single Single	\$160 \$200
Leaves	— C1	62 35	Single Single	\$580 \$220
h	E	35	Single	\$220 \$1,380
	Average F	Premium Per	Employee	\$276
	<u>Employee</u>	<u>Age</u>	Type of <u>Contract</u>	<u>Premium</u>
Replacement	A B	21 27	Single Single	\$160 \$200
Kepau	D E	29 35 35	Single Single Single	\$200 \$220 \$220
	_	o o	omgio	\$1,000
	Average F	Premium Per	Employee	\$200 —— ———
	Decrease to grou	-28% ◀		



Large groups feel smaller impact of employee turnover

Before Example 1
After
Termination Replacement

	Avg Premium	Avg Premium	Percent	
Group Size	per Employee	per Employee	Change	
5	\$200	\$276	38%	
25	\$200	\$215	8%	
50	\$200	\$208	4%	
500	\$200	\$201	0.4%	

- » Illustrative demographic effect to premium of *one* employee termination/replacement for group sizes
- » Larger groups use the same beginning proportionate demographics and assume the same loss of a 29 year old employee and replacement of a 62 year old employee



Large groups feel smaller impact of employee turnover

Before Example 2
After
Termination Replacement

	Avg. Premium	Avg. Premium	Percent		
Group Size	Per Employee	Per Employee	<u>Change</u>		
5	\$276	\$200	-28%		
25	\$276	\$261	-6%		
50	\$276	\$268	-3%		
500	\$276	\$275	-0.3%		

- » Illustrative demographic effect to premium of one employee termination/replacement for group sizes
- » Larger groups use the same beginning proportionate demographics and assume the same loss of a 62 year old employee and replacement of a 29 year old employee

Lower premium rates?



» Answer: For Some...

- Attractive option: Older and higher risk small groups that currently pay a higher premium under the current system would likely be attracted to a larger pooling arrangement
- <u>Unattractive option</u>: Young and healthy small groups would not want to lose their identity and credit for lower premiums by joining a larger pool

General Stratification of Risk



		Lower						Health Risk	Si				
		Lower -		1.00				1.33				2.00	Higher
		Group 1				Group 2		1.00		Group 3		2.00	
You	pger			Type of				Type of				Type of	
/		<u>Ee</u>	Age	Contract	Premium	<u>Ee</u>	<u>Age</u>	Contract	<u>Premium</u>	<u>Ee</u>	<u>Age</u>	Contract	<u>Premium</u>
/		Α	21	Single	\$160	A	21	Single	\$213	Α	21	Single	\$320
		В	27	Single	\$200	В	27	Single	\$266	В	27	Single	\$400
No.		С	29	Single	\$200	C	29	Single	\$266	С	29	Single	\$400
		D	35	Single	\$220	/ D	35	Single	\$293	D	35	Single	\$440
		E _	35	_ Single	\$220	E	35	_ Single	\$293	E _	35	Single	\$440
			29.4		\$1,000		29.4		\$1,330		29.4		\$2,000
		Average Pr	emium Per E	Employee	\$200	Average Prer	mium Per E	mployee	\$266	Average Pro	emium Pe	r Employee	\$400
		Group 4				Group 5				Group 6			
				Type of		-		Type of		•		Type of	
		<u>Ee</u>	<u>Age</u>	<u>Contract</u>	<u>Premium</u>	<u>Ee</u>	<u>Age</u>	Contract	<u>Premium</u>	<u>Ee</u>	<u>Age</u>	Contract	<u>Premium</u>
		Α	32	Single	\$200	Α	32	Single	\$266	Α	32	Single	\$400
g		В	35	Single	\$220	В	35	Single	\$293	В	35	Single	\$440
Average Age		С	41	Single	\$250	С	41	Single	\$333	С	41	Single	\$500
g		D	46	Single	\$290	D	46	Single	\$386	D	46	Single	\$580
e e		E _	51	_ Single	\$360	E	51	Single	\$479	E	51	Single	\$720
₹			41		\$1,320		41	_	\$1,756	_	41		\$2,640
		Average Pro	emium Per E	Employee	\$264	Average Prer	nium Per E	mployee	\$351	Average Pre	emium Pe	r Employee	\$528
		Group 7				Group 8				Group 9			
				Type of		-		Type of		•		Type of	
		<u>Ee</u>	<u>Age</u>	Contract	<u>Premium</u>	<u>Ee</u>	<u>Age</u>	Contract	<u>Premium</u>	<u>Ee</u>	<u>Age</u>	Contract	<u>Premium</u>
		Α	34	Single	\$200	Α	34	Single	\$266	Α	34	Single	\$400
		В	46	Single	\$290	В	46	Single	\$386	В	46	Single	\$580
		С	47	Single	\$290	С	47	Single	\$386	С	47	Single	\$580
1		D	58	Single	\$460	D	58	Single	\$612	D	58	Single	\$920
•		E _	62	_ Single	\$580	E	62	Single	\$771	E	62	Single	\$1,160
Ole	der		49.4		\$1,820		49.4		\$2,421		49.4	_	\$3,640
		Average Pre	emium Per E	Employee	\$364	Average Prer	nium Per E	mployee	\$484	Average Pre	emium Pe	r Employee	\$728

Stratified Risk Approach



- » Considerations for groups purchasing insurance through the State employee plan:
 - <u>Lower administrative and distribution costs</u>: Possibly for the groups through streamlined processes but may increase burden to the state
 - Less fluctuation in rates: Likely
 - <u>Lower premiums</u>: Likely for some groups that move (difficult to generalize without more details about a group) but will increase the cost to the state plan

State Employee Plan Basics



2009 Plan Offerings

	<u>Deductible</u>	<u>OPM</u>	<u>Coinsurance</u>	Office Copay	Drug Copay
Program 3 Plus	\$300/\$400	\$600/\$800	20%	\$15	\$5/\$15/\$30
Deductible 3 Plus	\$300/\$400	\$600/\$800	20%	\$15	20% after ded
lowa Select PPO	\$250/\$500	\$600/\$800	10% (In)/20% (Out)	\$15	\$5/\$15/\$30
Blue Access	\$0	\$750/\$1,500	varies	\$10	\$5/\$15/\$30
Blue Advantage	\$0	\$750/\$1,500	varies	\$10	\$5/\$15/\$30

2009 Premiums

	<u>Single</u>	<u>Family</u>
Program 3 Plus	\$643.23	\$1,505.17
Deductible 3 Plus	\$646.46	\$1,512.76
Iowa Select PPO	\$640.92	\$1,499.75
Blue Access	\$398.49	\$932.47
Blue Advantage	\$383.30	\$896.94

Illustrative Example



Considerations for movement to state employee plan

Total Block				
Group A	Single Rate \$900	→	State Plan \$900	Remaining <u>Block</u>
Group B Group C	\$615 \$470	>	\$615	\$470
Group D	\$340			\$340
Group E	\$310			\$310
Group F	\$290			\$290
Group G	\$260			\$260
Group H	\$220			\$220
Group I	\$215			\$215
Group J	\$200			\$200
Average	\$382		\$758	\$288

Considerations Include: Current Premium, Benefit Plan, Expected Future costs

Expected Impact: State plan would draw risk greater than or equal to current Remaining small group market would lose higher risk groups



Questions?